

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 PA-03

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FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC PRIORITY 3725

INFO AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

USOCD PARIS 474

COMICEDEFOR

CINCLANT

LIMITED OFFICIAL USE REYKJAVIK 0695

E. O. 11652: N/A

TAGS: EFIN IC

SUBJECT: REVALUATION OF ICELANDIC KRONUR

REF: REYKJAVIK 432

1. ICELAND REVALUED KRONUR IN TERMS OF DOLLAR BY FUTHER 2.2 PER CENT EFFECTIVE JUNE 15 ON TOP OF 6 PERCENT REVALUATION OF APRIL 30. NEW BUYING RATE ON DOLLARS IS 89 KRONUR, SELLING RATE 89.30. US\$1 WILL NOW PURCHASE IKR 89. CENTRAL RATE IN TERMS OF GOLD REMAINS 92.98 KRONUR TO THE DOLLAR WITH SAME 2.25 PERCENT UPPER BAND WHICH MAY FLUCTUATE AS HIGH AS 95.07 KRONUR TO THE DOLLAR. HOWEVER, GOI HAS ANNOUNCED A QUOTE MORE FLEXIBLE RATE UNQUOTE TO PERMIT REVALUATION OF KRONUR IN EXCESS OF 2.25 PERCENT MARGIN. NEW RATE IS APPROXIMATELY 4.3 PERCENT BELOW CENTRAL RATE, AND WE ARE RELIABLY INFORMED THAT GOI HAS AUTHORIZED
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AS MUCH AS A 6 PERCENT REVALUATION ON CENTRAL RATE, INDICATING THAT RATE MAY EVENTUALLY GO AS FAR AS 87.40 KRONUR TO THE DOLLAR GIVEN PRESENT REGULATIONS.

2. THE NEW MOVE IS BASED DIRECTLY ON RECENT CURRENCY CHANGES ON EUROPEAN MONEY MARKETS WHICH HAVE SO FAR PROVIDED A ROUGHLY 2.6 PERCENT WINDFALL (BASED ON A WEIGHTED AVERAGE OF ICELAND'S EXPORTS) TO ICELANDIC EXPORTERS TO NON- DOLLAR AREAS. IN SOME INSTANCES, CHANGE VIS- A- VIS KRONUR HAS BEEN CONSIDERABLY HIGHER, AS IN CASE OF DEUTSCHEMARK WHERE VALUE HAS RISEN 8 PERCENT. REVALUATION IS DESIGNED TO RESTORE AVERAGE OF EXCHANGE RATES PREVAILING AFTER APRIL 30 REVALUATION.

3. WHILE REVALUATION WAS DETERMINED EXCLUSIVELY BY ALTERATIONS IN RATES ON EUROPEAN MONEY MARKETS, PRESENT IMPROVED BALANCE OF PAYMENTS AND FOREIGN RESERVE POSITION MADE MOVE POSSIBLE. RESERVES AT END OF APRIL WERE US\$68.4 MILLION, AN INCREASE OF \$10.5 MILLION OVER APRIL 1972 ALTHOUGH LESS THAN ONE MILLION ABOVE JANUARY 1, 1973 LEVEL. BALANCE OF TRADE FOR FIRST FOUR MONTHS SHOWS SMALL SURPLUS OF \$918,000 WHICH IS SOMEWHAT DISTORTED BY ALUMINUM EXPORTS OF \$17.6 MILLION FOR WHICH DIRECT PAYMENT IS NOT RECEIVED. NEVERTHELESS, T
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*** Current Classification *** LIMITED OFFICIAL USE

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HELSINKI
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